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South American Trade—An
Opportunity but Not a
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An Address

Before the New Orleans Association of Commerce
New Orleans, Louisiana, December 3, 1914

By
FAIRFAX HARRISON
President, Southern Railway Company

Sept. 17, 1914, A.L.

SOUTH AMERICAN TRADE—AN OPPORTUNITY BUT NOT A SPECIAL PRIVILEGE

Efforts to increase exports from the United States to the countries of Central and South America have been part of the foreign policy of every administration at Washington since the first Pan-American Conference, more than twenty years ago.

During all that time—through the Pan-American Union and its publications, through commercial organizations of various kinds, and through the newspapers and magazines—a continuous propaganda in the interest of increased exports to the Latin-American countries has been carried on. The net result has been that, in the fiscal year ended June 30, 1914, sales of goods from the United States to all the countries south of Mexico, except Panama—the foreign trade of which has been largely incidental to the digging of the Canal—amounted to less than one-quarter of the value of our exports to the United Kingdom of Great Britain and Ireland, and our sales to the little country of Holland were approximately of the same value as to all the enormous territory embraced in Argentina, Brazil, Colombia, Peru, and Uruguay.

These comparisons might be thought to indicate that the campaign for Latin-American trade has been without results: but this is not wholly true, for, while our exports to Central and South America are relatively small, the trade is growing. In the ten years from 1904 to 1914, exports to Central and South American countries, exclusive of Panama, increased 141 per cent, as compared with an increase of but 59 per cent in exports to all the other countries of the world.

Large as the percentage of increase has been, however, it has not kept pace with the growing demand which has resulted from the great material development which has taken place in many of the countries, for, of the total imports into the Central and South American countries, exclusive of Panama, less than 14 per cent are from the United States. Analyzing the figures more closely, we find that the Central American countries, with relatively very small imports,—slightly over \$35,000,000 per year—buy 48 per cent of their foreign purchases in the United States, while the South American countries, with total imports amounting, in round numbers, to \$1,029,000,000 per year, buy only 12 per cent from the United States. The remaining 88 per cent of imports into the South American countries have, heretofore, been drawn almost entirely from

Europe and have been made up very largely of commodities that can be successfully produced in the United States.

The practical problem confronting the manufacturers and merchants of this country, and especially those of the Southern States, with their advantageous geographical relation to Central and South America, is that of selling to those countries a larger percentage of the goods which they buy abroad.

At the moment our people have two important advantages with respect to this trade. One is the opening of the Panama Canal, bringing the markets of the Pacific Coast of Central and South America into closer relation with our Atlantic and Gulf ports. The other is the European war, which has, for the time being, curtailed manufacturing in the principal countries of Europe, thrown their finances into disorder, and disarranged the ocean carrying trade of the world. These great events in the world drama have caught the imagination of the American people, but it is unfortunate that many of us have assumed that they have created for us a special privilege. The fact is that they have created for us an opportunity, but it is only another opportunity to win the rewards which follow sustained and intelligent effort.

The South American countries have heretofore bought largely, in the order named, from Great Britain, Germany, and France, three of the nations now involved in war. Because the war has practically stopped shipments from Germany and has greatly reduced those from Great Britain and France, the actual situation presents, as I have said, a notable opportunity for the manufacturers and merchants of the United States: but we should not be deceived into believing that South American trade is a plum ready to fall into our hands without our even taking the trouble to shake the tree. A large and profitable business with those countries can be built up, but, like everything else worth having, it can be secured only by persistent and continued effort.

If this effort is to be made along the most intelligent lines, we should first dispose of some of the fallacies relative to our trade with the South American countries which seem to be rooted in the popular mind. First of these is the assumption that products of the United States have not heretofore made much progress in the South American markets. The fallacy of this is shown by the increase in 10 years of 141 per cent, to which I have already referred. Other fallacies are that our manufacturers and merchants will not conform to the South American system of credits, that they will not pack their goods so as to meet the requirements of transportation to South American ports

and inland carriage from those ports, and that there is a lack of steamship facilities between our ports and those of South America. The answer in each case is the increase of 141 per cent in business actually done. Those of our exporters who have made a serious effort to secure South American trade have conformed to the South American system of credits—indeed, it is one of the difficulties of the present situation, that, in many cases in the past, they have done so to their cost, for when the long-time credits which they gave have matured, they have been met by requests for extensions and even by absolute failure to pay. Those who have gone into the trade and stayed in it know all about the requirements for packing for each particular market down to the smallest detail. There are regular lines of steamers from New York to all of the principal South American countries and lines from other Atlantic and Gulf ports to some of them, and, under normal conditions, there has never been any great difficulty in securing a tramp steamer at any port for a solid cargo.

There have been more serious obstacles to a larger development of trade to the Central and South American countries than the alleged conditions relative to credits, packing, and shipping facilities. The first of these is the fact that relatively few of our manufacturers and merchants have had an effective desire to get into that trade. In view of the universal acclaim which greets every movement that is inaugurated in the interest of developing this trade, this may seem like a broad statement: but, when I say that many of our manufacturers and merchants do not have an effective desire to engage in this trade, what I mean is that they do not want it enough to go after it and get it and hold it by the only means by which it can be obtained and held—persistent and intelligent effort. The fact is, that, when business conditions in the United States are normal, our home demand has been such that many manufacturers have had no difficulty in disposing of their entire output in the home market. They would be glad to sell goods in the South American markets if the prices were just right and the business came to them without serious effort on their part, but, in such times, they do not need this business enough to spur them on to make any serious effort to get it. It is only in times of business depression in the United States that they feel a serious need for broader foreign markets.

Wonderful as the development of manufacturing in the United States has been, we can as yet, under normal business conditions, spare only 4½ per cent of our manufactured and partly manufactured goods for export, whereas, under normal conditions, the great industrial na-

tions of England, Germany, France, Belgium and Holland must look to foreign markets for the sale of 60 per cent of their manufactured goods. In other words, one of the reasons why these European countries have outdistanced the United States in the competition for the markets of South America is that the European manufacturer needs those markets much more than his competitor in the United States and more than we will need them until we manufacture at home a larger percentage of our raw materials and correspondingly increase our production of manufactured goods. I may illustrate this by referring to cotton. Taking one year with another, about two-thirds of the cotton crop of the South is exported in the form of raw cotton, and fabrics made of this fibre make up a large percentage of the total shipments from European countries to South America. Obviously, if we are to secure any greatly enlarged proportion of the cotton goods trade of those countries, we must keep more of our cotton at home and manufacture the goods here.

The system, that has prevailed in some lines, of having goods handled solely by commission merchants, has doubtless been less favorable to the development of South American trade than would be a system of direct selling. Like some of the rest of us, the commission merchants often find it necessary or expedient to conduct their business in the interest of the immediate tangible profit rather than the interest of building an enduring, and so an ultimately more profitable, commerce. In the South American trade, I am informed, this practice has operated so to increase the final selling prices in South American markets that the competition of American manufactures with European goods has been put at a disadvantage for which the American manufacturer is not, himself, responsible. I do not criticize the commission merchants, for I appreciate what their own problem has been, but I venture to suggest that they are only pioneers and that the largest use of our present opportunity must be based on another system of trade. The industry proposing to enter the South American trade can undoubtedly secure the largest results if it will send its own selling force into the field, or, what is perhaps necessary in many cases, organize with others in allied lines of business for co-operative, but direct, representation.

La Prensa, the leading newspaper of Buenos Aires, discussing this subject in a recent issue illustrated the advantage of direct selling as follows:

"A piece of agricultural machinery which an American manufacturer prepares for export and delivers on board in New York, free of all charges, for \$25, is sold in Buenos Aires for \$75 or \$100,

as the middlemen here and there, generally English or Germans, make profits which frequently exceed those made by the manufacturers themselves.

"If the manufacturers had sales houses in Buenos Aires, and would do business in the manner, and on the terms current in the market, their sales would be multiplied by a hundred, and instead of receiving the \$25 above mentioned they would get double, and even then the article would come out 25 to 50 per cent cheaper to the Argentine consumer."

There is another point which we should all bear in mind. It is of the utmost importance. If our trade with the Central and South American countries is to be built on a solid foundation, it must be reciprocal in character. However polite they are, the South American peoples will not buy from us for sheer love of us or even from necessity: they want, or we want to induce them to want, to *trade* with us. They are high-spirited peoples who achieved their political independence largely for the purpose of avoiding being exploited in trade as they were for centuries under Spanish dominion. We must, therefore, recognize that our exports to each country are to be paid for by the things which we buy from that country. Fortunately, under present conditions, that is easy for us. Taking Central and South America as a whole, there is today a substantial margin for our exports, for, in round numbers, the value of our imports from those countries exceeds the value of our exports to them by \$100,000,000 a year. That hundred million dollars may be said to measure the margin for trade expansion which it should be our first endeavor to fill up.

Another thing that must be borne in mind is that a lending country is much more advantageously situated for the development of trade with a borrowing country than is a country which is itself a borrower. The United States is a borrowing country. The European countries which have been engaged most largely in the South American trade have been, with the exception of Germany, lending countries, and, although the Germans have been borrowers, they, as well as citizens of the other European countries, have made large investments in South America.

Growing out of this, the financial relations of the Central and South American countries have largely been with Europe. Bonds of their governments are held in Europe, many of their transportation and industrial enterprises have been financed by European investors, bills for purchases of goods from other countries have almost uniformly been paid through London, and banking facilities have largely been afforded by branches

of European banking houses. An immediate result of this is that the European war has profoundly disturbed financial conditions in every Central and South American country. Coincident with this, and accelerated by it, has been a recession of property values, consequent upon the collapse of boom conditions in some of the countries of several years duration.

Such a condition was foreseen by an intelligent commercial traveler, who, writing from Brazil prior to the beginning of the European war, said:

"So long as Europe, which is by far the heaviest buyer of South American products, has a full purse and the optimism to invest or to lend cash for industrial and other purposes here, the wheels go round happily and almost without friction; but let Europe have use for its money at home, let the people or the governments either refuse to invest or actually recall money already offered to South America, a shudder goes through financial circles in this part of the world."

The condition which was thus foreshadowed has been brought about, and, as a result, the purchasing power of the Central and South American peoples has been, for the time being, seriously impaired and the immediate outlook for securing for the United States a large proportion of the trade which formerly went to Europe is not so bright as it would otherwise be. This emphasizes the importance to our people of giving attention, at this time, to measures to bring about, as far as may be practicable, a readjustment of the financial relations of those countries. A long step in this direction has already been taken by one of the leading national banks of New York, which has opened a branch in Buenos Aires, is arranging to open another in Rio de Janeiro, and is contemplating extending its business into other South American countries. We may reasonably expect, therefore, that, whatever may be the ultimate effect of the European war on the financial systems of the countries involved, our exporters will find these branch banks substantially helpful and that, to some extent at least, South American bills will be settled through New York instead of through London.

Although, as I have pointed out, there have been ample shipping facilities for all of the trade between the United States and Central and South America, it can not be questioned that there would be some advantage in having a larger proportion of this business carried under the American flag. Speaking of conditions that have heretofore prevailed,

the Ambassador of one of the Latin-American countries recently observed that the United States, in this respect, was somewhat like a great department store with its shelves full of a vast variety of goods for sale but without its own delivery service and dependent upon a delivery service operated by its rivals. What happens to the business when the hired delivery service goes on strike is only to be expected. While I believe it is possible for us largely to increase our business with the Latin-American countries, whether or not it shall be performed by American ships, there is undoubtedly much truth in the old adage: "Trade follows the flag."

Some phases of the existing situation are favorable and some are unfavorable, but, taking all the conditions as they are, I venture to say that this is the most favorable opportunity that our people have ever had, and probably the most favorable that they ever shall have, to build up a great and growing export trade to South America.

While the present business depression and deranged financial conditions in the South American countries are unfavorable to any large immediate increase in trade, the natural wealth of those countries has been in no way decreased and an improvement in conditions is inevitable sooner or later. However, it would be a mistake for our merchants and manufacturers to wait for better conditions before making an effort to enlarge their markets in South America. They should get into the field at once, for, whatever may be the final outcome of the war now in progress, its conclusion is sure to find our European rivals, or some of them, once more in the field. The length of time during which European competition will be slackened will depend very largely upon the duration of the war and upon its after effects in decreasing the productiveness of the countries involved. Unless the loss of life shall be so great as very appreciably to diminish the labor available for productive enterprises, I doubt whether the after effects upon the volume of European industrial production will be of long duration. On this point John Stuart Mill, after pointing out that capital is kept in existence from age to age not by preservation but by perpetual reproduction, says:

"This perpetual consumption and reproduction of capital affords the explanation of what has so often excited wonder, the great rapidity with which countries recover from a state of devastation; the disappearance, in a short time, of all traces of the mischiefs done by earthquakes, floods, hurricanes, and the ravages of war. An enemy lays waste a country by fire and sword, and destroys or carries away nearly all the movable wealth existing in it; all the inhab-

itants are ruined, and yet in a few years after, everything is much as it was before. This *vis medicatrix naturae* has been a subject of sterile astonishment, or has been cited to exemplify the wonderful strength of the principle of saving, which can repair such enormous losses in so brief an interval. There is nothing at all wonderful in the matter. What the enemy have destroyed, would have been destroyed in a little time by the inhabitants themselves: the wealth which they so rapidly reproduce, would have needed to be reproduced and would have been reproduced in any case, and probably in as short a time. Nothing is changed, except that during the reproduction they have not now the advantage of consuming what had been produced previously. The possibility of a rapid repair of their disasters, mainly depends on whether the country has been depopulated. If its effective population have not been extirpated at the time, and are not starved afterwards; then, with the same skill and knowledge which they had before, with their land and its permanent improvements undestroyed, and the more durable buildings probably unimpaired, or only partially injured, they have nearly all the requisites for their former amount of production. If there is as much of food left to them, or of valuables to buy food, as enables them by any amount of privation to remain alive and in working condition, they will in a short time have raised as great a produce and acquired collectively as great wealth and as great a capital as before, by the mere continuance of that ordinary amount of exertion which they are accustomed to employ in their occupations. Nor does this evince any strength in the principle of saving, in the popular sense of the term, since what takes place is not intentional abstinence, but involuntary privation."

If, then, we are to profit by the temporary slackening of European competition, we should make every effort to be firmly established in the South American markets before our European rivals are prepared to make the aggressive efforts, which they assuredly will make, to recover the ground they have lost. It is a situation which, I repeat, calls for persistent and continued effort and especially for immediate effort.

In conclusion, let me say that this opportunity exists largely for the manufacturers and merchants of the South, for in our section we are producing successfully many of the articles which the South American people buy outside of their own countries, and we use in the South large quantities of the commodities which they can supply to the United States. We thus have the basis for building up a reciprocal commerce which will bring profit to our Southern manufacturers and merchants and so lead to increased direct transportation facilities between their plants and our Southern ports and between those ports and South America.

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